FACTORS AFFECTING PRICING STRATEGIES FOR SMALL MEDIUM ENTERPRISES IN NAIROBI

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A RESEARCH PROJECT SUBMITED TO THE SCHOOL OF MANAGEMENT AND LEADERSHIP IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF BACHELOR OF MANAGEMENT AND LEADERSHIP TO THE MANAGEMENT UNIVERSITY OF AFRICA

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DECLARATION

This project is my original work and has not been presented in any other university or institution for academic credit.

Signature:…………………………………**Date:** ……………………………………

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BML/13/00498/1/2016

This project has been submited for examination with my approval as the Management university of Africa supervisor.

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DEDICATION

With inconceivable love, I dedicate this project to all those who made it a success; my family and all those who selflessly supported this work.

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I wish to thank all the Management University of Africa fraternity; they have in one way or another contributed to make this research project a success. My sincere gratitude goes to all my fellow students, lecturers, special mention to my supervisor Mr. Samuel Thiong'o for his continuous support. To all of you, I shall forever remain grateful.

ABSTRACT

The focused on the factors that affect pricing strategies for small medium enterprises in Nairobi, Kenya with specific objectives being; to determine how cost of production influence pricing strategies for small medium enterprises in Nairobi, to determine how competition influences pricing strategies for small medium enterprises in Nairobi, to determine how marked demand influence pricing strategies for small medium enterprises in Nairobi and lastly to determine how government policy influence pricing strategies for small medium enterprises in Nairobi. This study used descriptive research design. The target population for this study was 540 respondents. The study used stratified sampling technique which involved dividing the target population into strata. The researcher used secondary information sources to gather the required information through books and journals. Respondents' data was analyzed through frequency and descriptive statistics. From the study findings 91% of the respondents agreed that competition affects pricing strategies for small medium enterprises in Nairobi whereas 73% of respondent indicated that cost of production affects pricing strategies for small medium enterprises in Nairobi. Majority, 98% agreed that government policy affects pricing strategies for small medium enterprises in Nairobi. On market demand, 78% agreed that it affects pricing strategies for small medium enterprises in Nairobi while 21% disagreed. The study focused on five key variables namely: top management support, cost of production, and government policy and market demand. However, there are other factors that can influence pricing strategies for small medium enterprises in Nairobi but have not been discussed in detail because they were not the main focus.

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ABBREVIATIONS AND ACRONYMS

BO	Bayesian-Optimal
SMES	Small Medium Business Enterprises

OPERATIONAL DEFINITION OF TERMS

Competition	This include competitive forces that shape ho organizations can operate and compete to gain long term market dominance.
Cost of Production	The costs related to making or acquiring goods and services that directly generates revenue for a firm. It comprises of direct costs and indirect costs.
Government Policy	These are rules and regulations governing business operations by ensuring that there is leveled fields and protection measures are adhered to.
Market Demand	It defines the actual demand for a specific product by buyers in a competitive market.

CHAPTER ONE:
INTRODUCTION TO THE STUDY

1.0 Introduction

This chapter was comprised of the background of the study, statement of problem, objectives of the study, research questions, significance of the study, scope of the study and summary of the chapter.

1.1 Background to the Study

Pricing is the value placed on good or service by sales force to some point in time. A price placed will vary based on the value perceived by potential sale force does not really contain the customer ‘s orientation necessary to market the product or service. Pricing is major factor that keeps the economy activity. The employment of any or all the factor of productions i.e. land labor and capital are dependent upon the price received by each (Stin, 2008).

Product pricing is regarded as the least exiting element of the marketing mix however it is the only element that directly relates to income and also an element which crosses over dramatically to other element. Promotional campaigns frequently carry messages about price, sales promotions are often based on price reduction and discount, price conveys message about the quality of the products and it can even discount and it can even control the features and benefits of the products (Stephen, 2007).

According to Friedman (2000) price also has a strategic element since it commonly determines how products are positioned against other products in the market. Undercutting competitors on price is a common way of competing. Although several areas of management and marketing activities, including managing supply chain can lead indirectly to cutting cost, price is only area where marketers can directly improve the profit of the manufacturing firm. This can be done through the efficient management of resources and offering a product or service at the right price. Coming up with a pricing strategy is an important task within the marketing because pricing is the only component of the marketing mix that generates sales profits; the other components generate costs and sales volume. The type of pricing strategy that SMEs would choose to employ would depend on the objective that the pricing strategy aims to achieve. (Kotler, 2006).

Pricing of product is an issue about which academics and practitioner have been at each other's throats for a very long time and shoe pricing is not excluded. Description of company pricing policies as the last stronghold of medievalism in modern management was probably one of the earliest attacks in the literature that the companies think about and goes about making pricing decisions. For example, a comparison of the adoption of cost plus pricing in a period of 50 years avails that that input of the fact that the intervening years will see countless reference to that cost plus pricing pays insufficient attention to environmental dynamics ; it remains the pre-dominant price setting methodology (Morone, 2009) postulates that practitioners have also been quick to criticize academic since they are as unable to really understand what pricing is all about.

According to Morone (2009) product pricing has a strong effect on sales. For instance, some products may increase in sales revenues, for other a pricing reeducation will lead to great sales. Pricing attached to a product has considerable impact on company's revenue and ultimately on its profit margin thus price in many cases has a psychological impact on customer and because of that, marketers can use it symbolically. By lowering it they can emphasize a bargaining and gains sale force that go out of the way to look for such offering competitive thrust, because of the 4ps, only price can be changed quickly to respond to change in demand or the action of competitor.

Proper or improper pricing can often determine the success of a firm's entire marketing strategy. The first step in price determination is to develop a price objective. The objectives give the sense of direction but are not sufficient by themselves. The managers then specify the related objectives for each of the 4ps. Pricing flow from the company level objectives; they are categorized into three areas. Attempting to receive the highest profit is one of the most common pricing objectives (Kotler, 2006).

According to Morone (2009) manufacturing firms' structures the price or their products in order to achieve predetermined return on sales. The firms target maybe a certain percentage return on sales. There are many firms which do not aim to maximize profit; instead they set profit objectives at level which are viewed as satisfactory to the owners and top managers. Some firms set prices to recover cash as fast as possible. Managers may be interested, for in a quick recovery capital spent on product development. Each of the following objectives is based on consideration of the market. Some fundamental goals of firms are to grow; it's not surprising that sales growth is a common pricing objective.

The attempt in this case is not to increase sales but also the firm's relative position in total sales of a product or a sector range. The company in this case adjust price each time a competitor alters his price. This type of objective is particularly easy accomplished. Managers feel that there will be little to be gain and considerable opportunity to lose funds by altering the competitive situation or having a price war. The approach ensures that all losses will be covered and that the desired profits will be achieved. Pricing policy; policy are rules intended to keep an organization decisions in line with its objectives. They help in daily decision making. In single pricing product or services are purchased at the same time in the same quantity at a single price to all. A variable pricing policy allows a firm to sell similar quantities to buyers at different prices (Louis, 2002).

Louis (2002) states that when introducing a new product into the market, its price will be set using penetration policy. Slamming policy occurs when a substantial number of sales force have relatively in-elastic demand; buyers associate with the highest price with superior quality and when competitors will not enter the market immediately. In penetration pricing policy the initial price for new product will be very slow to achieve quickly the possible market share. It happens when new products are not solidly visible does not symbolize social status. Best suited to the price sensitive market will attract a large volume of sales internal price determinant, nature of the business and policy statement determines products and market the firm's deals and with profitable is the measure of the amount by which income exceeds expedition. This will involve setting the best price of the new products which can be set higher than normal in order the development cost.

According to Friedman (2000) if a firm is entering a new market location with its product, they will want to research to ensure that they are pricing the product at a lowered price to ensure product will capture the attention of prospective customers. Venturing into market location like this may also require the firm to price the products based on the demand the market may allow. Once the firm has established the brand in a new market place, it is easier to raise the price slowly over time to back the price they might have lost in the initial price launch. Establishing a price strategy is an activity that should be completed before you start a product development. The only way to accurately determine how much money you can afford to spend on development, support, organization, promotion and other costs associated with products is to analyze how much of that you will sell, and at what price. That is the heart of successful pricing.

1.2 Statement of the Problem

Small and medium enterprises' like any other business entities seek to effectively apply pricing strategies for small medium enterprises their products so as to make profits and enable their growth. The current market situation may influence the price to be applied and so in the company mission. Thus, many variables are considered in pricing strategies for small medium enterprises is significantly true, pricing strategies of these products has always been a difficult area to study empirically, not less because of confidential reasons.

Assel (2001) observed half a century ago the reluctance of business men to confide to economist their methods of pricing strategies for small medium enterprises calculation and the character of their association with rival firms has been a serious barrier to close investigation of price policy as seen by price makers. The priorities of managers and research interest of academics in the pricing strategies for small medium enterprises have always or even mostly coincided. As Boone (2002) observed it is not that academics cannot solve managerial pricing problems or that they have no interest in solving them, rather it seems that academics researchers have not known, or do not focus on the pricing strategies for small medium enterprises concerns of managers in order to conduct vigorous pricing research. To the extent that one issues deemed important by managers have not been adequately addressed by researcher, it is not surprising that pricing theory and pricing research have won little recognition in practice.

Some of the factors that affect pricing strategies for small medium enterprises is due to the production and hence fail to understand the proper role of cost and by passing profits and opportunities as a result of applying re-utilized pricing formulae. It's behind this impending reason that the researcher seeks to establish factors influencing pricing strategies for small and medium enterprises in Nairobi.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of this study was to determine factors affecting pricing strategies for small medium enterprises in Nairobi.

1.3.2 Specific Objectives

i. To whether cost of production influences pricing strategies for small medium enterprises in Nairobi.
ii. To determine the role of competition on pricing strategies for small medium enterprises in Nairobi.
iii. To find out the effect of market demand on pricing strategies for small medium enterprises in Nairobi.
iv. To determine the role of government policy on pricing strategies for small medium enterprises in Nairobi.

1.4 Research Questions

i. How does cost of production affect pricing strategies for small medium enterprises in Nairobi?
ii. To what extent does competition affect pricing strategies for small medium enterprises in Nairobi?
iii. How does the market demand of product affect pricing strategies for small medium enterprises in Nairobi?
iv. How does the government policy affect pricing strategies for small medium enterprises in Nairobi?

1.5 Justification of the Study

SMEs owners will benefit by gaining strategic knowledge on how pricing strategies influence consumer purchase decision. It will also enable them know how many of their competitors adopt similar pricing strategies and therefore they will be able to position themselves competitively. Customers and the public in general are also likely to benefit from the research by understanding the various pricing strategies that are available.

This will come in handy when they are making decision in regard to what products they want to purchase, where to purchase and the amount they will purchase. By use of the product choice, store choice, purchase amount and purchase timing as the elements measuring consumer purchase decision, this study will help in filling the existing knowledge gap on elements of consumer purchase decision. The study will benefit academicians searching for information by providing yet another method of analyzing the pricing strategies on SME variables. Future scholars will also benefit from this study as they continue in the pursuit of further studies.

1.6 Scope of the Study

The study was limited to SMEs in Nairobi which are registered in Nairobi City County. The target population was undertaken on 540 SMEs and a sample population of 118 SMEs was selected. The study was undertaken in the months of July to September 2018.

1.7 Chapter Summary

This chapter entails the background on pricing strategies, statement of the problem, objectives the study and the research questions and lastly the scope of the study which describes where the study was conducted, the target population and the time span. The study was done to investigate the factors influencing pricing strategies for small business enterprises (SMES) in Nairobi.

CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction

Literature review is the process of identifying, evaluating and presentation of all the relevant information and so on. It helps a relevant methods and procedures used in previous studies. This chapter is therefore devoted to the review of literature related to the problem. It entails the theoretical review, empirical review, summary of the reviewed literature, and lastly the knowledge gaps. The review mainly concentrates on clarifying issues related to agency banking model to enable performance as observed by other researchers and scholars.

2.2 Theoretical Review

This theoretical review is in relations to the research objectives as follows.

2.2.1 Bayesian-Optimal Pricing Theory

Cheston and Kuhn (2002) asserts that a bayesian-optimal pricing (BO pricing) is a kind of algorithmic pricing in which a seller determines the selling-prices based on probabilistic assumptions on the valuations of the buyers in the small and medium firms. Using the pricing mechanism, organizations are able to determine applicable pricing strategy in advance without focusing much on bids made by actual buyers.

In the simplest setting, the seller of small medium enterprise has one item to sell specifically targeting one potential customer or buyer. The highest price is that which the buyer is willing to pay for the item which mainly termed as buyer evaluation. Most sellers set a pricing strategy for the small medium enterprise based on reports or research about the buyer. On the contrary, the seller of small medium enterprise does not know the buyer's valuation. According to (Khan, 2008) In the Bayesian model, it is assumed that the buyer's valuation is a random variable drawn from a known probability distribution.

Ledgerwood (1999) stated that in the single item and many buyers setting, the seller has a single item to sell (with zero cost) and there are multiple potential buyers whose valuations are a random vector drawn from some known probability distribution. Based on this, a different approach to pricing mechanism comes to mind: Symmetric prices: the seller of small medium enterprise product/service formulates a price for an item. In the event one or more buyers acknowledge the price, then arbitrage selection is applied to one of them. With regards to discriminatory pricing strategy, different prices are normally set targeting each buyer. If they select the set price, the seller will select the buyer with the highest price. Application of discriminatory pricing can be applied in a sequential order from the largest to the smallest unit price thus selling the product to the first buyer who accepted the price.

In the theory's setting, its pricing strategy in small medium enterprise is no longer equivalent to BO auction. In pricing for the small medium enterprise, the prices have to be set well in advance while in auction, the prices are mainly determined by the agent's bids. In the end, competitive pricing between the buyer and the seller may trigger price increase by the auctioneer. Thus, in relation to the theory, sellers are the main achievers in an auction. Using the BO pricing theory to determine the price of commodities of small medium enterprises especially for small and medium prices, for the seller to maximize profits, then BO pricing is the most appropriate since price a determined prior to the purchases by the buyer and provides no room for discounted prices.

2.2.2 Transaction Cost Theory

According to Ronald (1995) people begin to organize their production in small and medium enterprises when the transaction cost of coordinating production through the market exchange, given imperfect information is greater than within the firm. The author further postulates that the theory is neo-classical in nature since it defines an organizations theoretical model in comparison to the latest trends in the market. One important concept of the theories neo-classical approach is its explanation concerning how small and medium sized businesses mainly focus consistent returns to scale rather than adopting the concept of increasing return to scale approach. Similar approach is defined in a way which clearly describes realistic and compatible ways through which ideas such as substitution margin and instruments of conventional economic analysis apply. Small and medium enterprise interactions with the market may not be under the firm's dominance but allocation of internal resource is under control. In an organization setting, transactions in the market place is complicated due to complex market structure thus more firms will terminate the process by replacing entrepreneur who directs production process.

The main reason why organizations venture into is to minimize and avoid transaction costs by instituting pricing mechanisms such as pricing strategies. Various methods under pricing strategy include formulating prices that are relevant, the costs involved when negotiating and abiding by written contracts for every transaction made. The costs of haggling about division of surplus, particularly if there is asymmetric information and asset specificity, may be considerable (Ronald Coase, 1995).

Ghatak and Guinnane (1999) say that a small and medium enterprises operate internally under the market system, many contracts would be required (for instance, even for procuring a pen or delivering a presentation). On the contrary, complex organizations with few contracts that define a manager’s power in terms directing employees determines the rate at which they are paid. In such a case, this contract is formed under uncertain circumstances determines long term relationships based of a specific period of time. Thus, neo-classical approach to economic theory is fully applicable to such situations. From a different perspective, neo-classical approach can be viewed instantaneous since it does not encourage long term relationship between employee and their seniors specifically when planning and building personal trust.

It is important to note that government regulation on taxes, rationing and price control does affect the growth of small and medium enterprises since small and medium enterprise internally would not be subject to such transaction costs. Therefore, thinking of a small and medium enterprise as getting larger based on whether the entrepreneur organizes more or fewer transactions (Kotler, 2006). In the end, it is paramount to question what determines the growth of small and medium enterprises. Since its existence highly relies on operating under minimal costs than what the market offers, the main concern should at what point should the price be monitored to reduce its increase. As Kotler asserts, businesses that internalize tractions by encouraging more transactions be should the same as the cost of formulating the transaction in a real market thus affecting the prices of the organizational products. Organizing a small medium enterprise with many different small plants and differing internal transactions will increase it transaction.

2.3 Empirical Review

2.3.1 Cost of Production

According to Saxena (2006) cost is a major determination of pricing strategies for small business enterprises; in fact the limit to pricing is the firms cost structure. It is important for small medium enterprise to estimate the cost of manufacturing the product. It is important to know how cost behaves over periods of time and quantities produced. Another factor to be considered is that different manufacturing firms, within the sector, operate at different levels of efficiency, reflecting their cost structures. A firm may have a highest cost structure than the sector average on account of several variables, some of them behind higher reject rates, lack of co-ordination between departments sub-optimal utilization of plant capacity and so on.

According to Girtman (2006) cost sets the floor for the price than the company can change for its products. The companies want to change prices that incorporates production, distribution and selling costs should yield a return rate that portrays its efforts and risks involved. A pricing strategy many companies work to become ‘’low cost procedures’’ in sector. Firm operating under minimal costs set prices that would yield sales and profits margins. He further found out that a company operating under fixed and variable cost should determine which costs vary with the production outcome and the once that do not vary with the production outcome.

Small and medium enterprise should monitor its costs with caution. If tis costs are higher than what competitors are offering in the market, the enterprise will have to change its pricing strategy to make a profit in a competitive market setting. According to Otieno (2002) to price wisely, a small medium enterprise needs to know how its costs vary with different level of production. For manufacturing managers, developing variable costs to use in pricing decisions is frequenting a frustrating process often; many products are made in the same factory and the allocation of costs by the fiancé department is often arbitrary. Products which are easily to manufacture and have low materials costs frequently assume too much of overhead of a facility, making those tasked with pricing to meet market conditions quit difficult. In this regard, organizations are advised to study in depth the costing process used at a particular faculty, so that they can convincingly present their case for proper pricing strategies of particular products lines.

Drummond (2001) puts into clear perspective that the experience curve phenomenon applies to product for which repetitive production of larger amount and committing investment in new products systematically reduce cost over time. The consumers should be made part of the pricing strategies for the small medium enterprise thus the small medium enterprise should understand the value of consumers in pricing at all times. Pricing strategies for small medium enterprises may be too heavy and influenced by cost, when production costs are high the final price is also goes high .this is to cater for what was used in the manufacturing of the products.

Drummond (2001) argues that coupled with data on sale volume which are usually relatively easy to obtain and information on marketing program cost total profit can then be estimated. This can be important information in for existing. The likelihood that a product will stay in the market and the amount of money a competitor has put behind its brand strategy costs can be estimated in several ways. A common approach for small medium enterprise product is to use reverse engineering for a detailed analysis of cost in the markets particularly for manufactured identify component

Drummond (2001) asserts that organizations have to make decision before the product is produced failure to which it may account to almost 10% to 15% of its production costs. Consequently, administrative, sales ad marketing and production distribution decisions usually account for 10 to 15 percent increase in production cost. In the event small and medium enterprises make losses due to its production costs, they will have no choice but to reduce expenditure costs specifically in research and development and the direct the funds to production, sales and general administrative expenditures. Reducing the cost of production once the product design has been instituted is not easy. All the cost should be complexity of pricing which should not be made complicated so that unnecessary things are added to the final price. The other things that may led to ineffective pricing strategies for small medium enterprises are the traditional markups and target return on an investment (Kotler, 2006). A good pricing is one that benefits the small medium enterprise and at the same time is favorable to the consumer.

2.3.2 Competition

Richard et al., (2001) found that competition have a major effect upon pricing, First, one must examine their offering in details to understand the benefits and drawbacks of their approaches versus the firms approach where products are sold in the markets where bidding is not required to be made public and sales are infrequent, it may be difficult to obtain competitor's pricing nevertheless, an effort should be made. Finally, competitors cost are a very important factor in pricing strategy, since a competitor With a high cost base will have difficult in the event of pricing war, understanding competitive offering, including their price is critical. A small medium enterprise must there for be careful about setting its prices higher than competitors. This obviously depends upon the strategic position the firm find it in. Should the company be a leader in its market, it probably will price higher than competitor. In monopolistic competition situation small medium enterprises would realize no benefits by attempting to price lower than the dominant competitor since the large could easily match the smaller firm's prices or even retaliate by lowering prices further, putting a much larger financial strain on the smaller firm than it would realize itself.

According to Assel (2001) understanding of the competitors current position is an important aspect of this decision is competitor reaction certainly, this aspect of pricing strategy requires experience and knowledge. A correct assessment of competitor's potential reaction to increasing or decreasing pricing may determine whether the strategy chosen by the small medium enterprise is that correct one. Sophisticated small medium enterprises are able to include in their data about past competitive reactions to pricing strategies. This knowledge can help the manager make more informed about competitive actions.

Stephen (2007) says that competition also affects pricing strategy. If the firm is the leader it can set a price and let the competition set its price level. But even the leader firm has to anticipate a competitor firm's reaction to a price change. Competition can react by either following the leader or deciding to ignore it and refrain or lower its price. Thus, in deciding the price strategy, a marketer has to anticipate the competitor's reaction. (Kotler, 2006).

According to Leslie (2003) the competitors pricing strategy act as reference point, either explicitly or implicitly as way to assess the price in question. Competitor's price do not necessarily represent willingness to pay because the set possible price or marketing strategies may have been limited product managers cannot make intelligent pricing decisions without having some estimate of the relative cost positions held by competitors in the product category. He further argues that consideration of the entire sequence of moves complex. Instead, the purpose of two approaches; ignore the interdependence, assume each competitor is a rational economic agent and the determination is a likely set of actions, the will allow him to maximize this expected utility. Depending on the behavioral assumptions, underlying a model of developing price competition between two small medium enterprises may lead to a price where any between the monopoly price and the perfectly competitive price or the perpetually. On focus for research in the area of beverage companies the nature of structural variable that influences competitive behavior. The type and intensity of competition are attributed to eight major factors. These factors include: number and size distribution of competitors, sector growth rate, structure and storage cost, height to existing barriers, importance of the market firms, divisibility addition and important market firms and extent of production differentiation (Michael, 2007).

According to Harold (2009) when a product is priced in accordance with what the competition is charging, it’s known as competitive pricing which many companies adopt to stay a float in a competitive environment. The other strategy is cost based fixed profits are added to the cost of production. Demand pricing which involves setting price-based relationship that exists between volume and price. Also, mark up pricing involves adding a percentage profit to the wholesale price of a product. Competitive based pricing mainly focuses on the consumer as their main target. This usually encompasses sensitivity measured based on competition and price. To ensure long term profitability in enterprises, managers have mandate to formulate prices that covers production costs, overhead cost and also define measured that yields profits.

According to Kotler (2006) In order to establish the right competitive price for a product for a small medium enterprise, one needs to consider the product life cycle and the stage the product is in. Firms ignore competition especially when their products are in development stage. Consequently, if the market is highly dominated by competitors offering substitute products, enterprises to act since the competitors might be one factor driving the firms' profit. The three choices for the pricing strategy for small medium enterprise of the product are lower, higher, or same as the competitor.

Saxena (2006) asserts that the concept of competitive pricing is best understood when there are only two competing parties. For example, if two firms manufacture the same detergent for washing clothes. Both firms will set the same price to attract more customers but when they realize pricing strategy does not work, they will definitely shift to branding that defines why their products are worth the price. Similarly, companies also set prices that are almost the same as their competitors. To contain the production cost, companies are forced to adjust costs associated with packaging, design, advertising and distribution. In the end, companies will have no choice but to institute competitive based pricing as the only approach to attract customers by switching costs at lower prices. Thus, competitive pricing should not be a determinant factor when setting prices.

According to Shawn (2001) when a price a product for small medium enterprise is per the competition, then it is known as competitive pricing. Statistics indicate that a small change in price can increase or decrease profitability by twenty to twenty five percent. It is also apparent that 50% of fortune 500 firms do not a specific department that deals with pricing. They do not give much importance to study the structure and pricing strategy mechanism. Thus, the importance of competitive pricing strategy will increase as the market matures (Robert, 2009).

According to McCarthy (2004) in the competitive pricing strategy, prices are set according to the competition in the industry in which an organization operates. When establishing a pricing strategy for the small medium enterprise, companies are forced to evaluate the product life cycle to understand at what stage the product is in. If the product is in the development stage, then focusing on competition may be a waste of time, but if the product is at the maturity stage where competitors dominate with substitute products, then competitors' approach to pricing might be the ones driving the profit.

2.3.3 Market Demand

According to Kotler (2006) each pricing strategy will lead to a different level of demand and therefore have a different impact on a company's marketing objectives. Demand curve measurers the relationship between pricing strategy and the current demand. In such a scenario, it is evident the demand is relatively inversely proportionate to price when the demand is low. The demand curve show at what stage will the quantity of purchase is defined by pricing. This means that customers are attracted to products that costs less

They therefore need to understand the price sensitivity of their customers and the tradeoffs people are willing to make between price and product characteristics (Kotler, 2006). Small and medium sized organizations must know how to interpret the elasticity of demand and know how it shifts based on changes in price. Demand is considered elastic if it changes frequently. Thus, the more elastic the demand higher the volume of growth will result for price reduction. In a market where there are substitute products and competitor's dominance, buyers often think that higher price favors them thus they are slow to adjust their purchasing behaviour. On the other hand, elastic demand market will force sellers to lower their prices. Thus. in return, more revenue will be realized in the long run. This is only applicable when the cost of production increases more units sold proportionately.

According to Hick's (2011) cost sets the lower limit of price demand and competition typically sends the upper limits. Demand elasticity also varies by product type, elasticity can change over time and over price ranges and it can be different for a price decrease than a price increase. Customer response to price must be evaluated in light of the total size of the market reduced price may increase demand, but not sufficiently in terms of the total quantity required to justify a commitment to the target market.

Leslie (2003) asserts that demand depends on the price of the commodity and refers to how much (quantity) of a product or service is desired by buyers. The quantity demanded represents the price customers are willing to pay for a specific price of a product which is termed as demand relationship. From another angle, supply of a product does not depend on the price a single product but on the price of similar product that depict the amount the target market can offer. Also, quantity supplied showcase the amount suppliers ware willing to pay for a product.

Based quantity needed, products do change because of two main reasons. The law of demand states that unit change in price leads to a chain movement along the demand curve which in turn changes the quantity demanded. This means that more products will be purchased but at a lower price. Secondly, when income levels increase there is a change in demand. Market changes causes a drastic shift in demand. It means that more or less will be purchased at the same price (Torrington, 2009).

Kleindholfer (2000) argues that all of the non-price determinants (changes in the size of the market, income for the average consumer, population size, the prices and availability of related goods, consumer preferences) are directly related to consumers. This means at any given time, consumers will be in a position to pay more or less. Demand increase is usually presented in a demand curve that shifts to the right because each price represents quantity demanded.

Small and medium enterprises using pricing strategies causes changes in the demand for a product which in turn affects the organizations marketing goals. This means that the demand curve depicts the association between demand and price when market changes. In normal situation, demand and price are inversely proportionate to each other which is usually reversed when prestige goods exist in the market. Thus, a higher price for a prestige good indicates its quality aspects and consumers will purchase the product. Of course, if the price is too high, it will deter consumers from buying the product; hence the price must be justified (Friedman, 2010).

Saxena (2006) postulates that statistical analysis on historical data of prices, quantities sold and such factors can show the variation in product demand with respect to its price. Information used to compute may be longitudinal or cross-sectional. Thus, technical skill is crucial when formulating a model for statistical data. This means that various tests should be done to find out conclusive relationship between demand and price of a product. Another approach employed is the use of surveys determine how many units' consumers purchased based on a proposed price.

According to Kotler (2006) each price the company might charge will lead to a different level of demand. Most companies try to measure their demand arrived by making estimates about the price of a product and quantity needed. Such situations are realized in monopolistic market where demand results from different prices. When enterprises face stiff competition or adjust their own pricing mechanisms, the market opens up for other factors that make demand vary in all aspects. Finally, buyers are less price sensitive when the total expenditure for a product is low relative to their income or hewn the cost is shared by another party (Leslie 2003).

2.3.4 Government Policy

Kotler (2000) defines political environment as laws, government agencies and pressure that influences and limit various organizations and individuals of a given society from conducting certain activities. Jerkewitz states that "regulation consists of restrictions state and federal laws placed on business with regard to the conduct of its activities." This means that regulations should have a sole mandate of protecting businesses as well as consumer interests. This ensures that there is a leveled field for all competing companies that want consumers to focus on regulation is to protect them from unfair trade practices by the companies or organizations and ensure their safety.

Harold (2007) defines policy as plans in that they are general statements or understanding that guide or channel thinking in decision to be made and ensure that the decision will be consistent with and contribute to objectives policies help deciding issues before they become problems making it necessary to analyze the same situation every time it comes and unify other plans thus permitting managers to delegate authority and still maintain control over what they are subordinated to through government regulation decision making where the managers often do not want to lose control while managers use public policies to define their social responsibilities, they also recognize the need to influence the laws and regulation that constitute public policies.

According to Birkland (2001) asserts that the stated purpose of regulations is often to help protect consumers from a variety of problems in the market. To achieved the recommended status, the protection laws must be measured based on the costs incurred and price setting. Statistics indicate a close relationship between regulation and increase in prices. The variations show that government regulation has an impact of affecting price of products over a period of time. Increase in prices over a certain period of time depends on the state of regulations which has increased by 10%.

Clearly, increased regulations promote inflation, which is bad for all households but especially so for poor households as they already experience the highest rate of inflation of any income group. Alarmingly, it is also the case that regulations are positively correlated with price volatility. This result is especially important given the potential claim that regulations are a form of social insurance and drive up prices but reduce price volatility. Examining the data, the opposite is true. It is important to emphasize that these results do not include state regulations. If state regulations have a qualitatively similar impact on consumer prices, the regressive regulatory impact of all regulations on poor households is even greater than what our results suggest. (Chandra, 2008).

Bridgman & Davis model (2000) Policies are typically promulgated through official written documents which represents a standard of agreement that defines an organization. Since many policy formats defer, policy statements contain standardized documents that shows the importance of issuing policy measures to enterprises. Birkland (2001) said that a policy addresses the intent of the small medium enterprise, whether government, business, profession or voluntary. Thus, a policy framework should be at the forefront when making changes and key decisions that should be accepted and adopted policies.

Cathy (2004) postulates that changes in political environment often lead to changes in legal environment and in the way the existing laws are enforced. The government has put a rule that every small medium enterprise must know that some of the rule or laws are more imposed by the government but by its subordinates. Penalties for breaking civil law are limited to forcing certain actions along with fines. **(**Washington, 2008) government rules and regulations forces harsh economic disincentives on public products and service consumption through high taxes, court fines and jail fines and the court force a sizeable portion of the population to trade down from legitimate products to cheaper alternatives through smuggling and increase of the price in mini markets.

Peoples view policymakers formulate regulations to address their issues and protect the less privileged and vulnerable consumers which is not the case. On the contrary, policymakers often create policy measures that serves their own interest by driving up the cost of doing business in the name of improving the economy. Unfortunately, the goods and services to which the poor devote much of their limited budgets such as energy and food are also the most heavily regulated (Broan, 2005). Policymakers must understand the unintended effects of higher, more volatile prices on the poor when considering new regulations (Jurry, 2007).

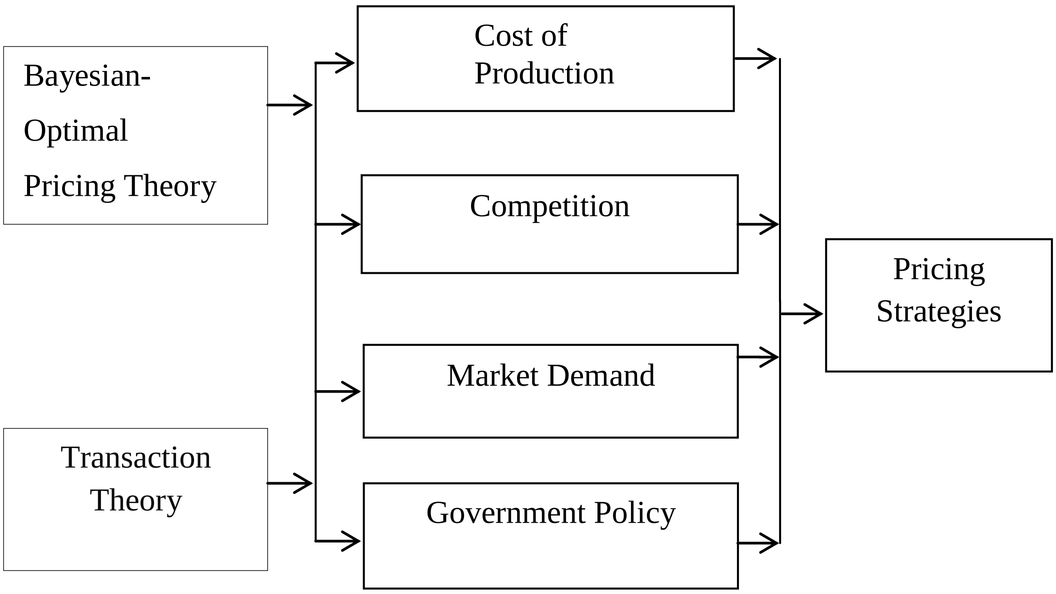
2.4 Summary and Research Gaps

Pricing strategies and SMES are multi-facet phenomenon; there is no standard way of conceptualizing and measuring them. Therefore, every SMES needs to develop its own configuration of pricing strategies that are rooted in the realities of its competitive market, past commitments and anticipated requirements. Previous researchers have agreed that firms that implement the right pricing strategies enjoy sustainable competitive advantage which reflects on their performance.

Previous studies have used various methodologies to examine the relationship between pricing strategies and SMES. There was therefore a need to use a yet another methodology to address the issue in order to see whether the researcher will get similar outcome. A number of studies in this area have been carried out in other parts of the world (Ellickson & Misra 2008; Goldrick , 2000). Very few studies on pricing strategies on SMES have been done in different contexts. The few studies done in the African context have focused on the service industry (Kane, 2007) leaving a research gap in the pricing of small and medium enterprises. There was a need to carry out a study within Nairobi City County focusing on the retail industry. A comprehensive understanding of how pricing strategies are linked with SMES adds to the body of knowledge in the SMES in Nairobi and Kenya at large.

2.4 Conceptual Framework

Figure 2.1: Diagram showing the relationship between theories, independent and dependent variables



2.5 Operationalization of Variables

2.5.1 Cost of Production

This is a major determinant to product pricing in small and medium enterprises since the limit to pricing is the firm's cost structure. It is important for manufacturing to estimate the cost of manufacturing as well as manufacturing products. For manufacturing managers, developing reliable cost to use in pricing decision is frequently a frustration process. Often many products are made in the same factory and allocation of costs by final price department is often arbitrary. Products which are easy to manufacture and have low material cost frequently assume too much of the overhead of a facility making the marketing manager's task in pricing to meet market condition quite difficult.

2.5.2 Competition

From the economic point of view competition is the struggle between interested parties for limited resources in a given environment. For this model, the interested parties are the sprouting manufacturing sector business entrepreneurs against a static base that forms the limited resources due to this fact that competition cannot be over emphasized since reaction of different manufacturing firms is experienced following the leading manufacturing in the market changing its price strategy, for example lowering its prices. For product pricing in small and medium enterprises of to be competitive in the market, the organization must be well informed on what the competitors are doing in regards to pricing.

2.5.3 Market Demand

Manufacturers for manufactured products need to access price elasticity on demand. Understanding how price elasticity works will enable manufactures to respond to price changes and they will have a huge impact in product pricing in small and medium enterprises.

2.5.4 Government Policy

Policies are fundamental organization tools which provide a basis of checklist for work, activities so as to ensure that each time a certain task is undertaken and completed in a uniform and objective way, with respect to pricing strategies for small medium enterprises in Nairobi, poor strategized price policies that do not take into considerations the rights, concerns and complains of consumers results in low sales of that particular product.

2.6 Chapter Summary

The study has reviewed study variables cost of production, competition, market demand and government policy and has established significant relations in study variables and pricing strategies for SMEs. This chapter also reviewed theories applicable to the study and summarized gaps identified in relation to the study objectives.

CHAPTER THREE
RESEARCH DESIGN AND METHODOLOGY

3.0 Introduction

In this chapter, the researcher presents the research design, target population and sample size, sampling design, data collection instruments, data analysis and ethical consideration.

3.1 Research Design

Orodho (2005) defines research design as appropriate for educational fact-finding and gives a lot of information which is very accurate. This study adopted descriptive research design, According to (Cooper and Schindler, 2008) descriptive design is a process of finding out, what, where and how an incident occurred. Descriptive research design is appropriate for studies that have specific issues and where problems have been defined (Mugenda and Mugenda, 2003).

The study describes and defines the subject matter by profiling issues under study (Cooper & Schindler, 2008). The design was appropriate for the study since it enabled the researcher to gather information concerning green procurement in the manufacturing sector.

3.2 Target Population

Borg and Grall (2009) described target population as common set of study units which the researcher to generalize results. The research study targets will be 540 SMEs that operate in Nairobi City County.

3.3 Sample and Sampling Technique

According to Kothari (2009) a sample is defined as subject of a population that has been selected to reflect or represent characteristics of a population. Cooper and Schindler (2008) a sample frame is a set of information used to identify a sample population for statistical treatment, the sample frames include identifying information on characteristics of the individual to aid in data analysis and allow for division of frames. Johnson and Turner (2009) define a sample frame as the set of source materials from which the sample is selected. The study used stratified sampling technique which involved dividing the target population of 540 respondents into strata and the sample size used will be 118 respondents. This method was appropriate since it gives all the respondents from each of the strata an equal chance to participate.

3.4 Instruments

The researcher used questionnaire to collect data especially primary data as outlined by Kothari (2004). The researcher used questionnaires because they are more efficient and an economical tool for descriptive and preventive research for the sample size that is chosen (Kothari, 2004). Secondary sources included books, journals, reports, journals, and magazine and internet literature.

3.5 Pilot Study

The pilot study aimed at establishing the validity and reliability of instruments of research (Cooper & Schindler, 2008). Content validity was instituted to showcase the extent to which data was gathered through the use of questionnaires. Based on this, the study used a sample of 16 randomly selected respondents to participate in the pilot study. The pilot group was done through random sampling.

3.5.1 Validity

Validity is the correctness and capacity of interpretations founded on the study results. The researcher will conduct a pilot study to validate the study questionnaire. Gillham (2008) explains that understanding and expertise covered by the test items that represent a larger area of same dynamic.

3.5.2 Reliability

According to Denzin and Lincoln (2005) a reliability test of research instruments is one that consistently produces the expected results. Kothari (2009) points out that instrument reliability refer to the level of internal consistency or the stability of the measuring devices. According to Dane (2010) a questionnaire has the same expectation-that is reliably does what it is designed to do every time is used. If the questionnaire is consistent over time and yields similar results each time it is used, it is reliable. The researcher used the questionnaire and administer the questionnaire to 16 respondents from the target population randomly. The researcher waited for two weeks and then repeat the questionnaire to the same respondents.

3.6 Data Collection Procedure

Primary data was presented the actual information gathered and questionnaires were used for this purpose that was self-administered and was hand delivered to the target respondents with the questionnaire having it picked by the researcher for data analysis. The study used secondary data for literature review.

3.6.1 Questionnaires

Questionnaires are a list of standard questions prepared to fit a certain inquiry. The questionnaires contained both closed ended questions so as to facilitate structured responses for the rating of various attributes whilst open ended questions which helped to provide additional respondents information. According to Orodho (2005) questionnaires measures likelihood of straight, even and blunt answers. This can be superior to an interview because social communion operates strongly in a face of situation that may prevent the person from expressing what he feels to be socially or professionally unacceptable views. The study used Likert-type format of questionnaires.

3.7 Data Analysis and Presentation

After data collection, before analysis, all questionnaires were checked for reliability and verification. Editing, coding and tabulation will be carried out. Qualitative data according to Orodho (2005) does not produce discrete numerical data. Qualitative data will be obtained from open-ended questions and analyzed using thematic analysis. The results will be tabulated in frequency tables for ease of interpretation to easily visualize the various results from the respondents. Quantitative data will be obtained from closed-ended questions and analysis was done using Microsoft Excel Software.

3.8 Ethical Consideration

The researcher undertook important measures by ensuring ethics was adhered to. Introduction letter was obtained from the participating SMES and Management University of Africa.

3.8.1 Informed Consent

The researcher ensured that the principle of informed consent is properly applied and the researcher explained to the respondents the expectations of the study and they were asked to ask questions where there was a misunderstanding to avoid hang-ups while responding to questionnaires.

3.8.2 Voluntary participation

The researcher sought consent from respondents before administering the questionnaires to the target population and the respondents were sent a consent form indicating the purpose of participating in the research process.

3.8.3 Confidentiality

The researcher granted the respondents utmost confidentiality of the responses that they provided and apart from the finding being meant for an examinable project at Management University. That data shall not be availed to any other party.

3.8.4 Privacy

The researcher accorded the respondents the right to privacy when participating in the research. The researcher abided to various guidelines for human subject research to protect the study participants who chose to participate in the research study. The rights of the people who participated in the study was protected.

3.9 Chapter Summary

This chapter focused on identifying appropriate research design for the study; the target population and the right sampling design and technique to be used; construct and explain research instrument to be employed and explain how the pilot study was instituted to test reliability and validity of the research instrument. Moreover, the chapter elaborated data analysis techniques used and how respondents' ethical considerations was met.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter undertakes to analyze and discuss the data collected from the respondents in relation to research objectives and quantitative analysis and qualitative analysis. The quantitative data analyzed was presented in using tables, charts and through percentages while qualitative analysis was presented through content analysis.

4.2 Presentation of Findings

4.2.1 Response Rate

Table 4.1 Response Rate

Category	Number	Percentage
Response	128	87
Non Response	28	13
Total	**156**	**100**

Source: Author (2018)

The above data was presented using a chart as show below

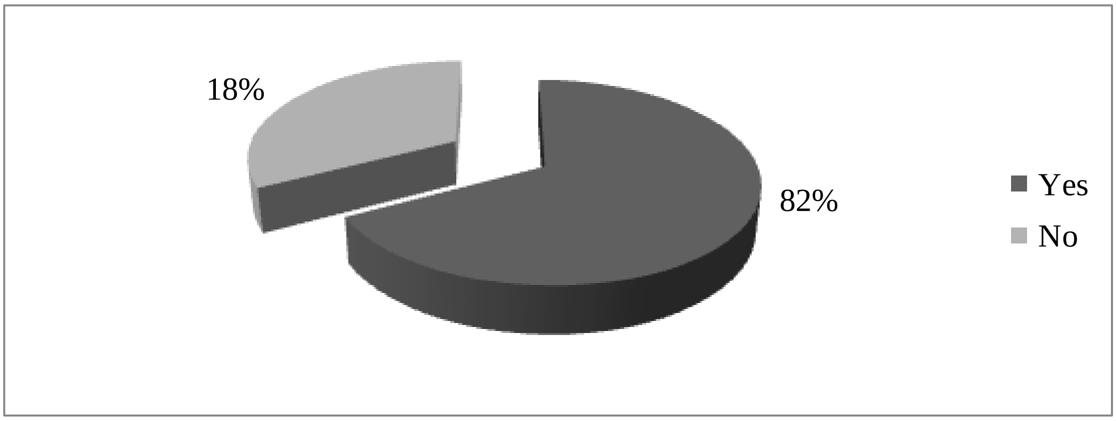


Figure 4.1 Response Rate

Source: Author (2018)

From the analysis in table 4.1 and figure 4.1 indicates the response rate for the actual representation of the population. Out of 73 questionnaires distributed 64 were returned, that is 87% of the total population and 9 which is 13% were not returned.

4.2.2 Gender Analysis

The study identified gender of the respondents involved in the study. The data obtained from the respondents is as summarized in table 4.2

Table 4.2 Gender of the Respondents

Category	Frequency	Percentage
Male	106	83
Female	22	17
Total	**128**	**100**

Source: Author (2018)

The above data was presented using a chart as shown below.

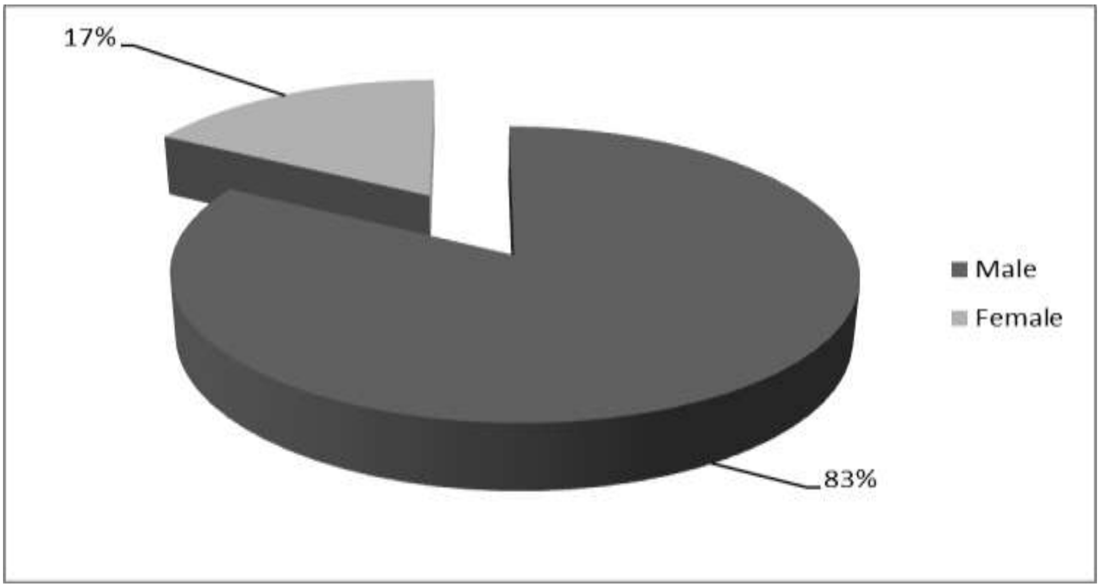


Figure 4.2 Gender of the Respondents

Source: Author (2018)

Analysis from the table 4.2 and figure 4.2 shows that 83% of the respondents were male while 17% were female. This implies that the organization has a male dominated workforce.

4.2.3 Length of Doing Business

The study sough to find out the respondents as per Length of Doing Business involved in the study. The information obtained from the respondents is as presented in table 4.3 and figure 4.3

Table 4.3 Length of Doing Business

Category	Frequency	Percentage
Up to 5 Years	78	61
6 – 10 Years	26	20
11 – 15 Years	20	16
Over 16 Years	4	3
Total	**128**	**100**

Source: Author (2018)

The above data on Length of Doing Business was presented using figure 4.3

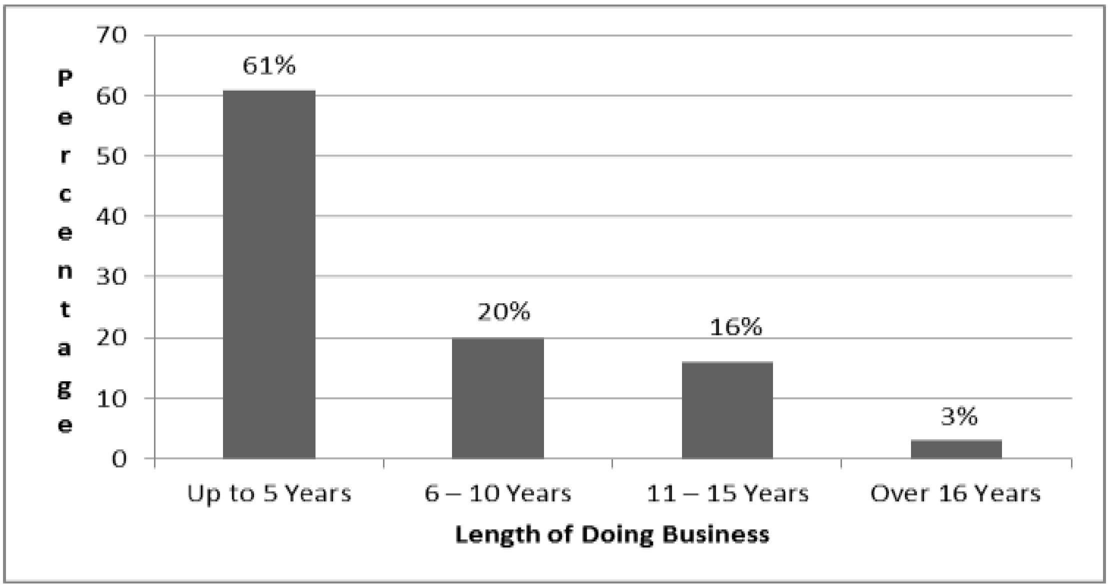


Figure 4.3 Length of Doing Business

Source: Author (2018)

Table 4.3 and figure 4.3 indicate the response of the Length of Doing Business which filled the questionnaires. Top level management respondent by 2%, middle level management by 5%, while the response of support staff being 93%.

4.2.4 Highest Level of Qualification

The study sought to establish the highest educational qualification of the respondents involved in the study. The information obtained from the respondents is as summarized and presented in table 4.5 and figure 4.5.

Table 4.4 Highest Level of Education

Category	Number	Percentage
Secondary	46	36
College	54	42
University	28	22
Total	**128**	**100**

Source: Author (2018)

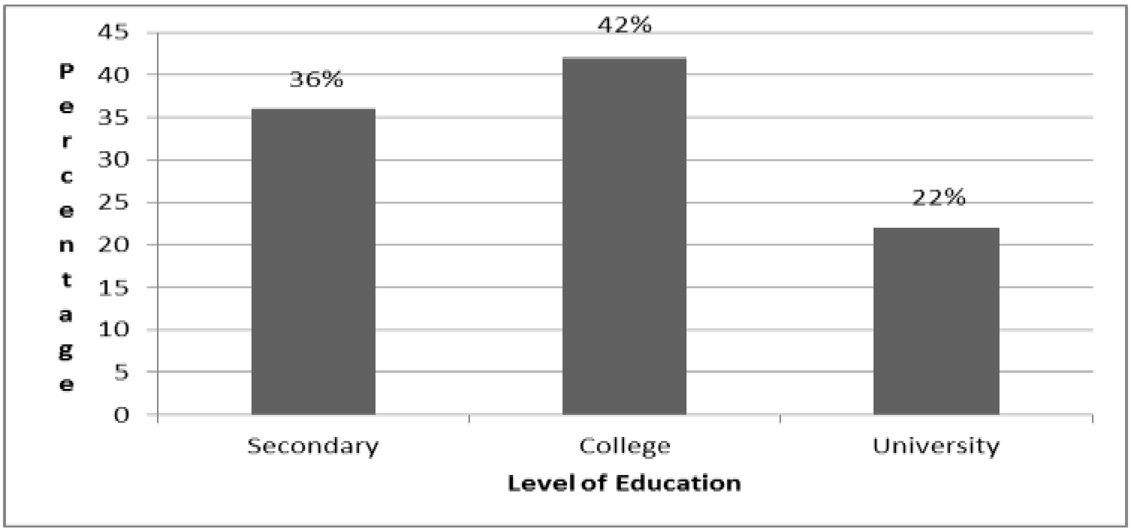


Figure 4.4 Highest Level of Education

Source: Author (2018)

Table 4.4 and figure 4.4 indicated that 22% of the respondents were graduates, 42% of respondents had college education while 36% had secondary education. This indicates therefore that most of the respondents were learned, hence well informed of the organization expectations.

4.2.5 Competition

The researcher evaluated how the competition affected the pricing strategies for small medium enterprises in Nairobi. The information obtained from the respondents is summarized in table 4.6.

Table 4.5 Whether competition affects pricing strategies for small medium enterprises in Nairobi

Category	Frequency	Percentage
Yes	116	91
No	12	9
Total	**128**	**100**

Source: Author (2018)

The above information on whether competition affects pricing strategies for small medium enterprises in Nairobi as shown in figure 4.5 below

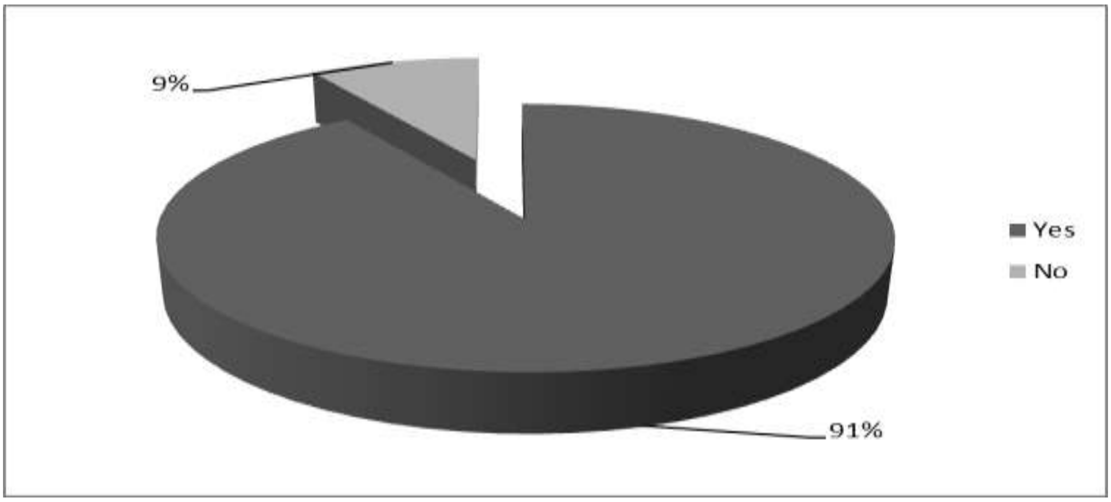


Figure 4.5 Whether Competition Affects Pricing strategies for small medium enterprises in Nairobi.

Source: Author (2018)

Table 4.5 and figure 4.5 shows the response on the effect of competition on pricing strategies for small medium enterprises in Nairobi. It was established that 91% respondents indicated that competition affect pricing strategies for small medium enterprises in Nairobi while 9% indicated that there is no effect. In conclusion, it was emphasized that competition influences pricing strategies for small medium enterprises in Nairobi.

4.2.6 Competition

The study sought the rating of the effect of competition on the pricing strategies for small medium enterprises in Nairobi. The information obtained from the respondents is summarized in table 4.7.

Table 4.6 Rating the effect of competition on pricing strategies for small medium enterprises in Nairobi

Category	Frequency	Percentage
Very Great	34	24
Great	44	35
Average	24	17
No Effect	26	24
Total	**128**	**100**

Source: Author (2018)

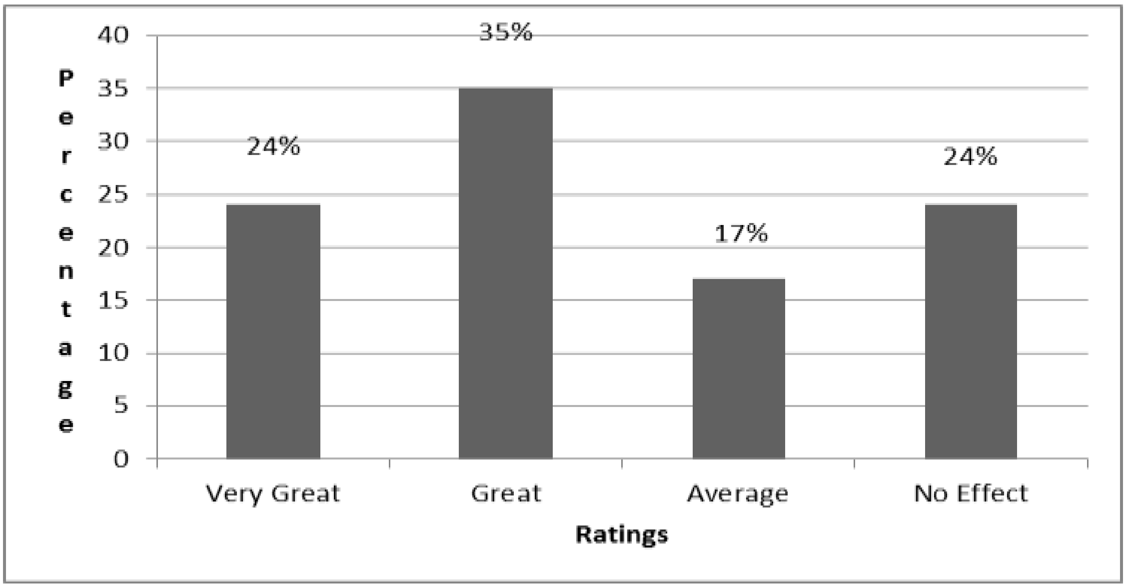


Figure 4.6 Rating the effect of Competition on Pricing strategies for small medium enterprises in Nairobi

Source: Author (2018)

From the data collected and analyzed and presented above, the influence of top management on the implementation internal communication systems at Pink Tower Montessori School is shown. 24% of respondents indicated the extent as very great, 35% indicated that the effect is great, 17% indicated it as average whereas only 24% indicated that there is no effect.

4.2.7 Cost of Production

The study sought to find out whether cost of production affects Pricing strategies for small medium enterprises in Nairobi. The information obtained from the respondents is as summarized in table 4.7

Table 4.7 Whether cost of production affects pricing strategies for small medium enterprises in Nairobi

Category	Frequency	Percentage
Yes	94	73
No	34	27
Total	**128**	**100**

Source: Author (2018)

The above information whether cost of production affects pricing strategies for small medium enterprises in Nairobi was presented in the figure 4.8.

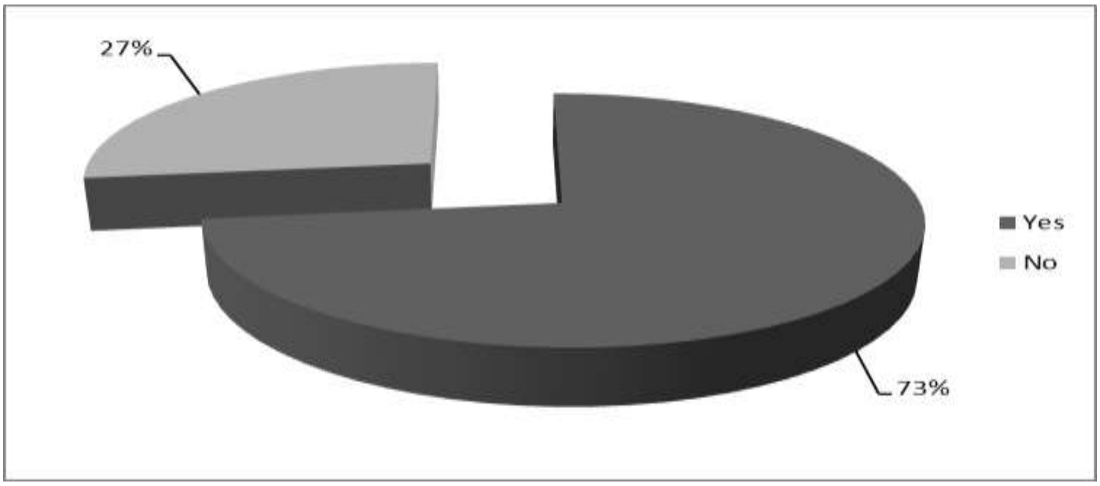


Figure 4.7 Whether cost of production Affects Pricing strategies for small medium enterprises in Nairobi

Source: Author (2018)

The data collected, analyzed and presented above on the influence of cost of production on pricing strategies for small medium enterprises in Nairobi is shown. It was established that 73% respondents indicated that cost of production affect pricing strategies for small medium enterprises in Nairobi while 27% indicated that there is no effect. Based on this finding it can be inferred that cost of production is a key factor affecting pricing strategies for small medium enterprises in Nairobi.

4.2.8 Rating of the Effect of Cost of production

The respondents were asked to rate the cost of production on Pricing strategies for small medium enterprises in Nairobi. The information obtained from the respondents is as summarized in table 4.8

Table 4.8 Rating the effect of cost of production on pricing strategies for small medium enterprises in Nairobi

Category	Frequency	Percentage
Very Great	34	26
Great	28	22
Average	26	20
Low	22	17
No Effect	18	15
Total	**128**	**100**

Source: Author (2018)

The above data on the rating of the effect of Cost of production on Pricing strategies for small medium enterprises in Nairobi was presented graphically as follows

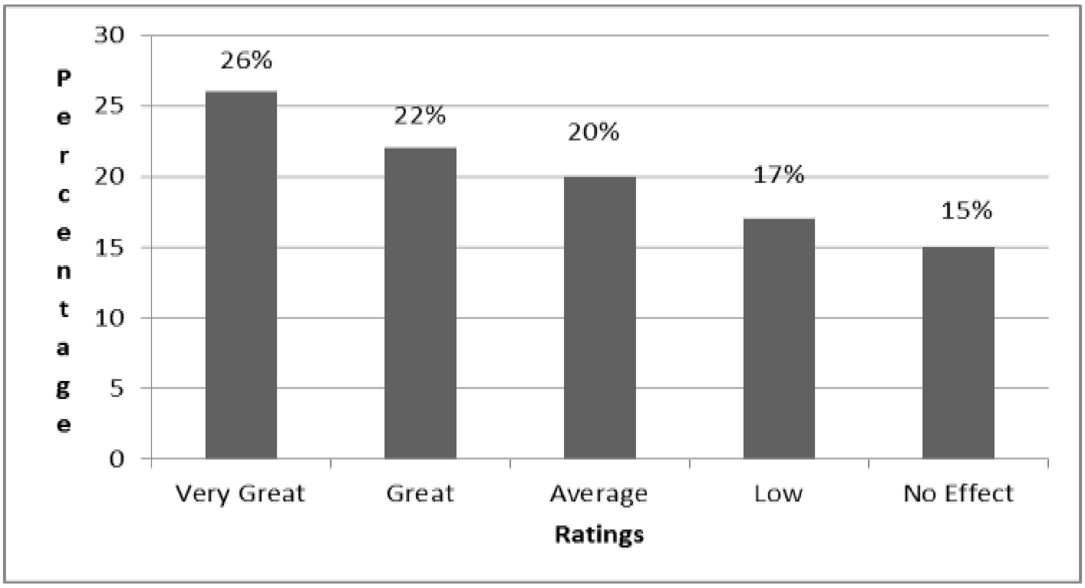


Figure 4.9 Rating the Effect of cost of production on pricing strategies for small medium enterprises in Nairobi

Source: Author (2018)

The data collected and analyzed on the rating of how training influences pricing strategies for small medium enterprises in Nairobi in presented .It was revealed from the study by majority (28%) of the respondents indicated that the influence of training is very great, 20% indicated that the effect is average, 24% indicated that it is great, 17% indicated that it is low, whereas only 11% indicated that there is no effect.

4.2.9 Government policy

The study to examine wwhether government policy affects Pricing strategies for small medium enterprises in Nairobi. The data obtained from the respondents is as summarized in table 4.9.

Table 4.9 Whether Government policy Affects Pricing strategies for small medium enterprises in Nairobi

Category	Frequency	Percentage
Yes	126	98
No	2	2
Total	**128**	**100**

Source: Author (2018)

The above data on whether Government policy affects Pricing strategies for small medium enterprises in Nairobi was presented using figur4.9

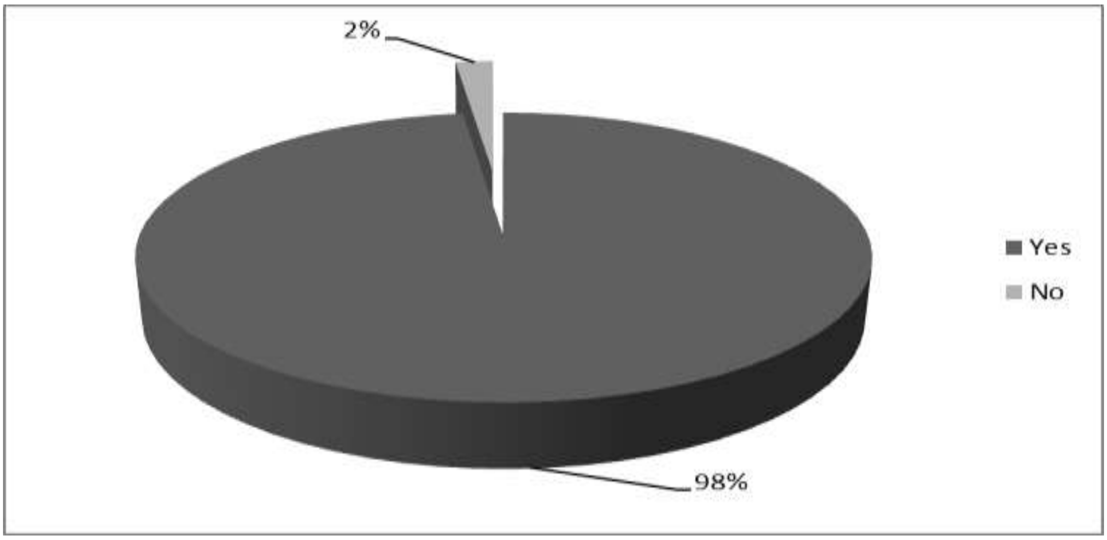


Figure 4.9 Whether Government policy Affects Pricing strategies for small medium enterprises in Nairobi

Source: Author (2018)

The data collected and analyzed on the how government policy affects pricing strategies for small medium enterprises in Nairobi in presented. It was established that 98% respondents indicated that government policy affect pricing strategies for small medium enterprises in Nairobi while 2% indicated that there is no effect. Thus, government policy is a key factor affecting pricing strategies for small medium enterprises in Nairobi.

4.2.10: Rating the Effect of Government policy

On extent to which leadership affects the pricing strategies for small medium enterprises in Nairobi, the information obtained from the respondents was summarized in table 4.9

Table 4.10 Rating the Effect of Government policy on Pricing strategies for small medium enterprises in Nairobi

Category	Frequency	Percentage
Very Great	48	35
Great	30	22
Average	24	19
Low	18	15
No Affect	14	9
Total	**124**	**100**

Source: Author (2018)

The above data on the rating of the effect of government policy on pricing strategies for small medium enterprises in Nairobi was presented graphically as show in figure 4.10

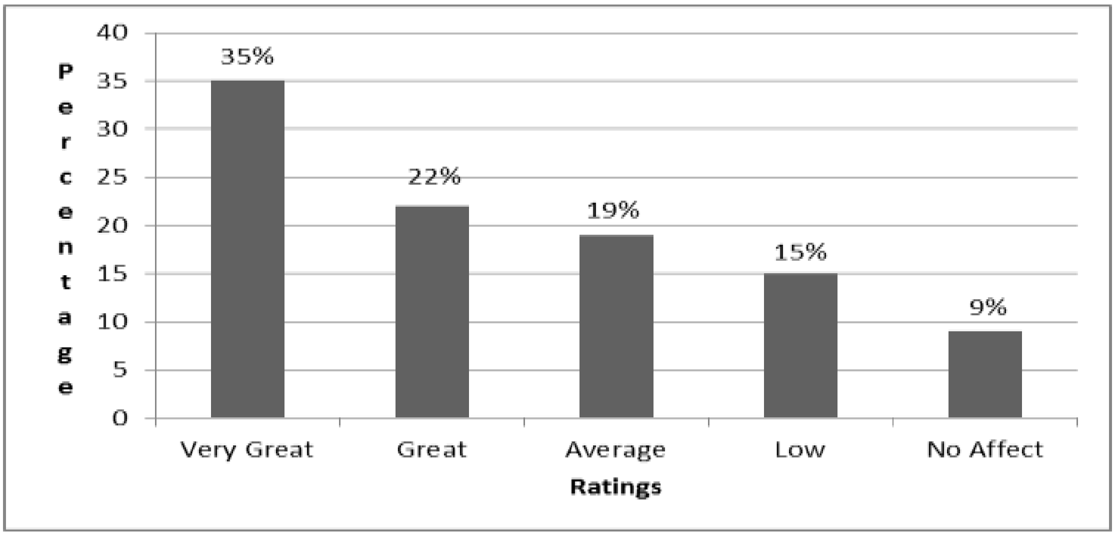


Figure 4.10 Rating the Effect of Government policy on Pricing strategies for small medium enterprises in Nairobi

Source: Author (2018)

The data collected and analyzed on the rating of how government policy influences pricing strategies for small medium enterprises in Nairobi in presented .It was revealed from the study by majority (35%) of the respondents indicated that the influence of government policy is very great, 19% indicated that the effect is average, 22% indicated that it is great; 15% indicated that it is low, whereas only 9% indicated that there is no affect.

4.2.11 Market Demand

The study to examine whether market demand affects Pricing strategies for small medium enterprises in Nairobi. The data obtained from the respondents is as summarized in table 4.11.

Table 4.11 Whether Market demand Affects Pricing strategies for small medium enterprises in Nairobi.

Category	Frequency	Percentage
Yes	100	78
No	28	22
Total	**128**	**100**

Source: Author (2018)

The above data on whether market demand affects pricing strategies for small medium enterprises in Nairobi was presented using figure 4.11

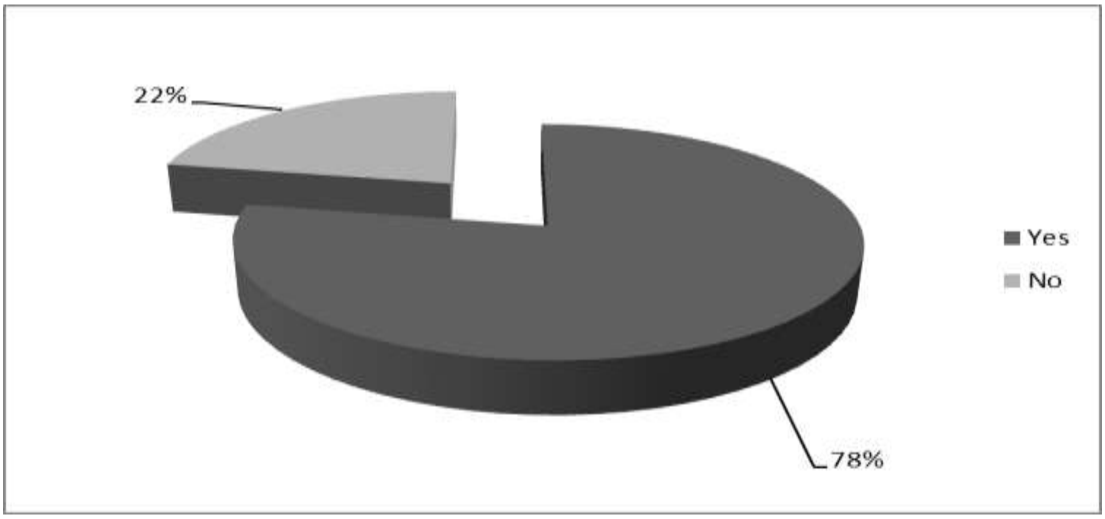


Figure 4.11 Whether Market demand affects pricing strategies for small medium enterprises in Nairobi

Source: Author (2018)

From the table 4.11 and figure 4.11, 78% of the respondents indicated that market demand affects pricing strategies for small medium enterprises in Nairobi while 22% indicated that there is no effect. Based on this finding it can be inferred that market demand is a key factor affecting pricing strategies for small medium enterprises in Nairobi.

4.2.12: Rating the Effect of Market demand

On the extent to which market demand affect pricing strategies for small medium enterprises in Nairobi. The information obtained from the respondents was summarized in table 4.12

Table 4.12 Rating the Effect of market demand on pricing strategies for small medium enterprises in Nairobi

Category	Frequency	Percentage
Very Great	39	28
Great	32	24
Average	22	20
Low	20	17
No Effect	16	11
Total	**64**	**100**

Source: Author (2018)

The above data on the rating of the effect of market demand on pricing strategies for small medium enterprises in Nairobi was presented graphically as show in figure 4.12

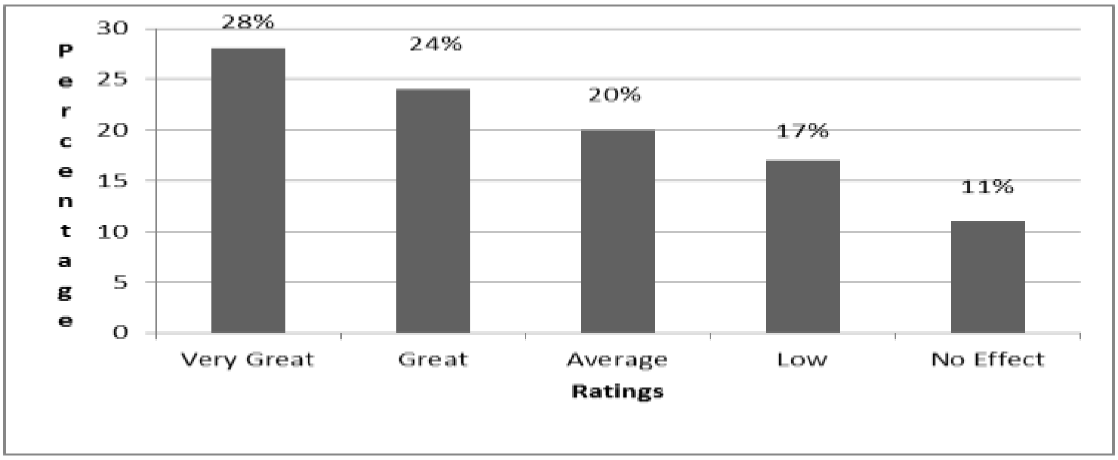


Figure 4.12 Rating the Effect of market demand on pricing strategies for small medium enterprises in Nairobi

Source: Author (2018)

The data collected and analyzed on the rating of how market demand influences pricing strategies for small medium enterprises in Nairobi in presented .It was revealed from the study by majority (28%) of the respondents indicated that the influence of government policy is very great, 20% indicated that the effect is average, 24% indicated that it is great, 17% indicated that it is low, whereas only 11% indicated that there is no effect.

4.3 Summary of Data Analysis

4.3.1 General Information

Out of 73 questionnaires distributed 64 were returned, that is 87% of the total population and 9 which is 13% were not returned. Gender response shows that 83% of the respondents were male while 17% were Female. Length of doing Business indicated that up to 5 years was 61%, 6-10 years was 20%, 11-15 years was 16% and lastly over 16 years was 3%. Fourteen percent of respondents were graduates, 65% of respondents had college education while 17% had secondary education. 4% of respondents had primary education.

4.3.2 Competition

It was established that 91% respondents indicated that competition affects pricing strategies for small medium enterprises in Nairobi while 9% indicated that there is no effect. It was found that 29% of respondents indicated that that competition affects pricing strategies for small medium enterprises in Nairobi to a very great extent. However, some 11% of respondents indicated that that competition affects pricing strategies for small medium enterprises in Nairobi at a low extent.

4.3.3 Cost of Production

The study established that 73% respondents indicated that cost of production affect pricing strategies for small medium enterprises in Nairobi while 27% indicated that there is no effect. Cost of production effect on pricing strategies for small medium enterprises in Nairobi was felt to be very great by 35% respondents. 22% indicated that the effect is great, 19% indicated that it is average; 15% indicated that it is low, whereas only 9% indicated that there is no affect. This implies that cost of production plays a significant role when handling pricing strategy within the organization.

4.3.4 Government Policy

The study revealed the effect of government policy on pricing strategies for small medium enterprises in Nairobi. It was established that 98% respondents indicated that government policy affects pricing strategies for small medium enterprises in Nairobi while 2% indicated that there is no effect. Government policy effect was cited to be very great by 35% respondents. 22% indicated that the effect is great, 19% indicated that it is average; 15% indicated that it is low, whereas only 9% indicated that there is no affect. This implies that pricing strategies incorporated by small and medium enterprises should adhere to government regulations across the board.

4.3.5 Market Demand

The study established that 78% respondents indicated that market demand affects pricing strategies for small medium enterprises in Nairobi while 22% indicated that there is no effect. Market demand effect on pricing strategies for small medium enterprises in Nairobi was indicated that to be very great by 35% respondents. 22% indicated that the effect is great, 19% indicated that it is average; 15% indicated that it is low, whereas only 9% indicated that there is no affect. From the analysis, it is evident that small and medium enterprises rely on shift in market demand and supply to set their pricing target based on competitive forces shaping the demand structure.

CHAPTER FIVE

SUMMARY, RECOMMENDATIONS AND CONCLUSIONS

5.1 Introduction

This chapter is comprised of summary and conclusion of the study based on the findings detailed in chapter four. It also provides recommendations based on the study's conclusions which can therefore lead to appropriate mechanisms to combat pricing strategies for small medium enterprises.

5.2 Summary of Findings

5.2.1 How Does Competition Affect Pricing strategies for small medium enterprises in Nairobi?

It was established that 89% respondents indicated that competition affect pricing strategies for small medium enterprises in Nairobi while 11% indicated that there is no effect. From the study it was concluded that competition had an effect on pricing strategies for small medium enterprises in Nairobi.

5.2.2 How does cost of production affect pricing strategies for small medium enterprises in Nairobi?

The study established that 82% respondents indicated that cost of production was a factor affecting pricing strategies for small medium enterprises in Nairobi while 18% indicated that there is no effect. From the study it was concluded that cost of production had an effect on pricing strategies for small medium enterprises in Nairobi.

5.2.3 In what ways does government policy affect pricing strategies for small medium enterprises in Nairobi?

It was established that 67% respondents indicated that government policy affect efficiency of pricing strategies for small medium enterprises in Nairobi while 33% indicated that there is no effect. Government policy effect was cited to be very great by 35% respondents. 22% indicated that the effect is great, 19% indicated that it is average; 15% indicated that it is low, whereas only 9% indicated that there is no affect. From the study it was concluded that government policy had an effect on pricing strategies for small medium enterprises in Nairobi.

5.2.4 How does market demand affect pricing strategies for small medium enterprises in Nairobi?

The study established that 81% respondents indicated that market demand was a factor affecting pricing strategies for small medium enterprises in Nairobi while 19% indicated that there is no effect. Market demand effect on pricing strategies for small medium enterprises in Nairobi was indicated that to be very great by 35% respondents. 22% indicated that the effect is great, 19% indicated that it is average; 15% indicated that it is low, whereas only 9% indicated that there is no affect.

5.3 Conclusions

The researcher concluded that competition had an effect on product pricing in small and medium enterprises in Kenya. The respondents asserted that enterprises should formulate its competition strategy in order to advance positively in what is regarded as a fast more competitive manufacturing growing market in Kenya. As this will impact build the organization in terms of increase in sales, organization, and marketing image.

It was also apparent that cost of production affects product pricing in small and medium enterprises in Kenya. It is important to know how operational cost behaves over period of time and quantity produced. Another factor to be considered is that different firms, within the same sector operate at different level of efficiency, reflecting their operational cost structures. A sector may have a highest operational cost structure than the sector average on account several variables, some of them higher reject rates, lack of coordinating between departments.

Government policy affects the organization as indicated in the study. Policies are mandatory and must be adhered to by all people in their activities throughout the organization. At co-operate and operational level policies have many advantages. They provide authority based on principles for a given course for action, they provide guidelines when formulating functional and operational strategies allow coordination across organizational units and reduce time managers spend in making decisions.

The researcher concluded that market demand had an effect on product pricing in small and medium enterprises in Kenya. A demand of a product largely depends on the pricing of the commodity among other factors. A product which is competitively priced attracts mores sales hence profitability is realized in the long run.

5.4 Recommendations

5.4.1 Competition

The study recommends that the organization needs to know what the other organizations are doing in regards to the pricing decisions of their products so as to be in the market giving a gap to the other organization's manufacturing similar products.

5.4.2 Cost of Production

The study recommended that it's important to know how cost behaves over period of time and quantity produced. Another factor to be considered is that different firms, within the same sector operate at different level of efficiency, reflecting their operational cost structures.

5.4.3 Government Policy

Regulation exists to protect companies as well as the consumer. Much of the regulation from the federal and state level has been to ensure competition and fair business practices. The organization should strive to adhere to the government policies as they are meant to ease their operations and protect them from unfair competition in the sector.

5.4.4 Market Demand

All sectors of an economy have demand for the products and services they offer and pricing is one the factors which determine the demand of a product. The researcher recommended that to ensure that the product have demand in the market they must be competitively priced and slightly lower than those of the competitors in the sector

5.5 Suggestions for Further Research

The study focused on five key variables namely: top management support, cost of production, and government policy and market demand. However, there are other factors that can influence pricing strategies for small medium enterprises in Nairobi but have not been discussed in detail because they were not the main focus. This study therefore recommends that further study should be conducted on the effects of information technology on and benchmarking on the pricing strategies for small medium enterprises in Nairobi.

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APPENDIX I: CONSENT FORM

MUTHAMA STELLA MUSISI

ADM NO: BML/13/00498/1/2016

Dear respondents,

<u>RE: TO WHOM IT MAY CONCERN</u>

I Muthama Stella Musisi a student from Management University of Africa Pursuing bachelor of management and leadership specializing on Business Management. As a requirement from the University, I am supposed to conduct a research study on Factors Affecting Pricing Strategies for Small Medium Enterprises in Nairobi

Kindly assist in answering questions on the attached questionnaire with accurate information that will be used for academic purpose only. Confidentiality will be observed and no information will be shared to any third-party organization without consent.

Your assistance will be highly appreciated.

Yours faithfully,

Muthama Stella Musisi

APPENDIX II: RESEARCH QUESTIONNAIRE

Kindly answer the question by putting a tick in the appropriate box or by writing in the space provided.

SECTION 1: GENERAL INFORMATION

1. **Gender**

   Male { }

   Female { }

2. **Length of Doing Business**

   Up to 5 Years { }

   6-10 Years { }

   11-15 Years { }

   Over 16 Years { }

3. **Highest Level of Education**

   Secondary { }

   College { }

   University { }

SECTION 2: COST OF PRODUTION

4. Does cost of production affect pricing strategies for small medium enterprises in Nairobi?

   Yes { }

   No { }

5. How do you rate the effects of cost of product on pricing strategies for small medium enterprises in Nairobi?

   Very Great { }
   Great { }
   Average { }
   No Effect { }
   Briefly explain

   …………………………………………………………………………………….

   …………………………………………………………………………………….

   ……………………………………………………………………………………..

SECTION 3: COMPETITION

6. Does competition affect pricing strategies for small medium enterprises in Nairobi?

Yes { }

No { }

7. How do you rate the effects of competition on pricing strategies for small medium enterprises in Nairobi?

Very Great { }
Great { }
Average { }
No Effect { }
Please Explain

………………………………………………………………………………………

………………………………………………………………………………………

………………………………………………………………………………………

SECTION 4: MARKET DEMAND

8. Does market demand affect pricing strategies for small medium enterprises in Nairobi?

Yes { }

No { }

9. How do you rate the effects of market demand on pricing strategies for small medium enterprises in Nairobi?

Very Great { }
Great { }
Average { }
No Effect { }
Briefly explain

……………………………………………………………………………………….

……………………………………………………………………………………….

………………………………………………………………………………

SECTION 5: GOVERNMENT POLICY

10. Does government policy affect product pricing in small and medium enterprises in Kenya?

Yes { }

No { }

11. How do you rate the effect of government policy on pricing strategies for small medium enterprises in Nairobi?

Very Great { }
Great { }
Average { }
No Effect { }
Briefly explain

…………………………………………………………………………………….

…………………………………………………………………………………….

……………………………………………………………………………………..

Thank you for your Cooperation